

Hong Kong Business Update

A Biweekly Publication of Commercial Opportunities



November 17, 2003

Inside This Issue

- * Hong Kong Trading Company Sourcing for Recycling Plastic*
- * Water Industry Decision Makers Gathering, December 10, 2003*
 - * Pearl River Delta (PRD)*
 - * China's 2008 Olympic Venue and Related Projects*
 - * Dates for Upcoming Trade Shows in Hong Kong*

INTRODUCTION:

This free, biweekly, e-mail service is compiled and published by the Commercial Service, U.S. Consulate General Hong Kong. It is designed to provide U.S. companies, government officials and other interested parties with information about the latest business developments and commercial opportunities in Hong Kong. For further information regarding any items in the Hong Kong Business Update, please send an email to the individual specialists listed below.

1. HONG KONG TRADING COMPANY SOURCING FOR RECYCLING PLASTIC

Grandly Pacific Trading Company, a recycling plastic import/export company, is sourcing for recycling plastic from the U.S. Grandly purchases an average of 2,000 MTS per month of recycling plastic materials and re-exports it to their joint venture factory in China which produces finished products, such as polyester stable fiber, drums, and plastic bags, etc. Grandly is seeking for the following recycling plastic materials, the specification for the products are listed below:

<u>Products</u>	<u>Specification</u>
PET	Mixed color – natural/color, or green Bottles Pet bottles blue tint/natural 50/50 Pet mixed baled bottles with label and caps HDPE/pet mixed baled bottles HDPE natural color baled bottles Pet post-industrial clear regrind

LDPE	100% natural A grade 90/100 natural or color Pure blue/natural color 100% natural bales film Film scraps
PE/PP Diaper	Coated Diaper 10% color, printing, and white

Interested U.S. recycling suppliers should contact Grandly Pacific Trading Company's Ms. Anna Tung at e-mail: sales@grandlygroup.com.hk, or via fax: 852-8148-4749 for detailed information. Please contact Commercial Specialist Rose Mak at Rose.Mak@mail.doc.gov or fax: 852-2845-9800 for further assistance.

2. WATER INDUSTRY DECISION MAKERS GATHERING, DECEMBER 10, 2003

The Asia Pacific Water Council "APWC" is inviting decision makers to participate in an event on December 10 in Hong Kong to discuss key issues impacting the water industry in Asia. Established about a year ago, the APWC is an NGO committed to best practices in the water industry across Asia. Through working with government agencies and industry representatives, APWC promotes a level playing field, transparency and a better overall investment environment in the water industry in Asia. Baker & McKenzie is the sponsor for this event. US companies specializing in water / wastewater treatment and project development may consider building contacts with industry players through participating in this gathering. For further information, please contact the Asia Pacific Water Council via e-mail at group@laykinhk.com.

3. PEARL RIVER DELTA (PRD)

Background:

- The PRD region by definition: A coastal area of Guangdong Province adjacent to Hong Kong, which covers 14 cities and counties.
- Emergence of the PRD: Since China's open-door policy began in 1979, many Hong Kong manufacturers have moved their production facilities to the PRD region to take advantage of the low cost of land and labor. Hong Kong, as a result, has transformed into a service-based economy providing logistics, warehousing, finance, insurance and legal services to manufacturers in the PRD. This relationship between Hong Kong and Guangdong Province is described as "front-end shop and back-end factory."

Statistics:

1. PRD Population: 50 million, 3.3% of China's population;
2. The Richest Region of China
 - 9% of China's GDP
 - 25% of foreign direct investment
 - 34% of China's exports;
3. Hong Kong is the source for 70% of PRD's foreign direct investment;
4. Forecast to grow 12% p.a. through 2005;
5. Total value of exports from the Greater PRD in 2001 was USD 289 billion, representing 4.69% of total world merchandise trade.

As a U.S. IT Company, why should you go to the PRD region?

- High-Tech is a main focus of PRD economic development. High-Tech industry has been growing rapidly in the PRD over the past decade, reaching over US\$47.7 billion in 2002, with over US\$30 billion in export, leading all other regions in the country. A number of leading software parks have been established in various cities including Guangzhou, Zhuhai, Shenzhen, etc. U.S. companies can leverage on the PRD advantages (low cost of operation) to cooperate in the development of software and communications industries, the application of technology in product design and the use of technology to enhance productivity in manufacturing.
- More importantly, the PRD region is an excellent market for U.S. IT exporters. In order to promote the use of IT in PRD, the Guangdong Software Industry Association, working with China government agencies, has launched a plan for enterprise informatization for Guangdong businesses. In 2002, under this scheme, there were 25 cases of enterprise informatization, with investment totaling over 1.1 billion RMB (USD 140 million), including provincial government subsidies of about 38 million RMB (USD 4.8 million) and other subsidies from the city and town levels. For example, Guangzhou has subsidized 24 million RMB (USD3 million).
- The areas of application for large enterprises are as follows: financial management (100%), corporate website (80%), ERP (70%), Computer-aided design (70%), industrial control (70%), and sales management (50%). The areas of applications for SMEs are as follows: financial management (100%), corporate website (20%) and ERP (10%). An evaluation procedure was established under the scheme to pre-qualify IT service vendors. In the first batch last year, 31 IT service companies were qualified, including IBM, Oracle, EDS and SAP.

Hong Kong's Strengths in IT/Telecom Sector:

- A mature market for mobile and telecom applications;
- Focus on innovative applications;
- Hong Kong is the natural window to the China market, especially with the integration of the PRD economy.

Other Inherent Strengths:

- Rule of Law (piracy or contractual issues)
- Simple and low tax regime
- Free flow of capitals
- English proficiency
- Management skill

High-Tech Parks in PRD

- Low cost for product localizations
- Tax breaks and government subsidies
- Only 1 hour ferry ride from Hong Kong

IPR Issue in China

- Mainland has the worst IPR problems in the world
- Local protection
- Bureaucratic legal processes
- Poor legal enforcement

How To Tackle IPR Problem

- Make legitimate products available and accessible
- Minimize distance from the end-users
- Do frequent distributor account auditing
- Oversees product registration directly
- Encrypt your software

A few tips for U.S. companies finding distributor(s) in Hong Kong and China:

- Use Hong Kong as a gateway to Southern China;
- Use one importer/distributor but use multiple resellers to cover different geographical areas in China;
- Distributor Margin: ranges from 15%-40% depending on the products;

Cost of Hiring – Hong Kong versus Guangzhou

Guangzhou:

- Senior engineer/middle management: RMB 4,000–8,000/month (USD500- 1000) plus benefit;
- Entry-level staff: RMB 2,000–3,000/month (USD250-375) plus benefit.

Hong Kong:

- Senior engineer: HKD 12,000/month (USD1,500);
- Entry-level software engineer: HKD 7,000/month (USD 1,000);
- Salesman: HKD 15,000/month (USD 1,900) plus commission;
- Manager: HKD 15,000-20,000/month (USD 2,500) plus incentive.

4. CHINA'S 2008 OLYMPIC VENUE AND RELATED PROJECTS

Over the next five years, the Chinese Central Government, Beijing Municipal Government, Beijing District Government and private (non-Government organizations) owners of Olympic facilities will renovate or build 35 Olympic facilities, infrastructure improvement projects for waterways, roads, subways and the airport, plus renovations or new projects for hotels, restaurants and other complimentary facilities for the Olympic Games in 2008. The Beijing Municipal Government has promised that bidding on these projects will be open to both foreign and domestic companies on an equal basis. The Beijing Organizing Committee for the Olympic Games (BOCOG) has 15 departments responsible for coordinating all aspects of the 2008 Olympic Games. General information and updates on BOCOG events is available at:<http://en.beijing-2008.org>

While BOCOG has direct responsibility for the 2008 Olympics, many other Central Government, Beijing Municipal Government, Beijing District Government and private (non-Government organizations) owners of Olympic facilities will play a pivotal role in procuring products and services in preparation for the 2008 Olympic Games. The process of bidding for projects must include consideration for: (1) capital requirements dictated by the Chinese or foreign contracting authority; (2) ownership rights or responsibilities dictated by the Chinese or foreign contracting authority; (3) financing dictated by the Chinese or foreign contracting authority; and, (4) testing requirements dictated by the Chinese or foreign contracting authority. The Beijing Municipal Development and Planning Commission (BDPC), a Beijing Municipal Government department, continues to play a key role in drafting the master plans for both the Olympic venues as well as the infrastructure projects outside of the Olympic venues. BDPC contracting opportunities are available at:<http://olympic.bjinvest.gov.cn/english>

Olympic Facilities (see below chart for venue details):

35 competition venues for the Olympic Games;
30 of these venues will be located in Beijing;
9 will be renovations, 21 will be new constructions;
Shanghai, Tianjin, Shenyang, and Qinhuangdao will also hold Olympic events including the preliminary football (soccer) matches;
Qingdao will also build an aquatic facility to host sailing events.

BOCOG's goal is to choose all venue facility designs by the end of October 2003. All Olympic facilities target completion dates fall within 2006, with one exception: the completion of the Olympic Village housing will be completed as close to the beginning of the 2008 Games as possible.

Environmental Improvements (BDPC funds these projects through its tendering agencies):

Air pollution control: (a) coal burning pollution control through increased use of natural gas (CNG and LPG) through construction of engineering services and support facilities as well as natural gas pipelines and storage tanks to promote clean public transportation such as natural gas for 90% of buses and 70% of taxis; (b) vehicle emission control through implementation of more stringent emissions standards, aided by the installation of new inspection equipment throughout the city;
Water Environment Improvement: improve and build new sewage systems and waste-water treatment facilities as well promote water softeners and purification devices;
Industrial Pollution Control: implement cleaner production and ISO14001 environment management system certification among industrial companies; and,
Solid Waste Management: construct treatment and disposal facilities while promoting recyclable products.

Transportation & Infrastructure (BDPC or non-Beijing Municipal Government Venue Owners fund these projects through their respective tendering agents):

Develop and implement an Intelligent Transport System (ITS), computerized traffic-monitoring and accident-reporting system;

Fund the repair and expansion of highways and local roads around through ❧Build-Owner-Transfer❧ (BOT) or stock market avenues;

Build five or six 600+ room five-star hotels in Beijing ❧s Chaoyang Business District (CBD), and renovate other rated hotels in the city;

Improve power supply system capacity; and,

Expand air traffic to Beijing by either building a new airport in Tianjin or by expanding the current Beijing airport;

The Beijing Subway Company is adding five subway lines and is seeking foreign investment, possibly in exchange for ticket revenue (prices for subway fares will rise in the near future to test this concept ❧s feasibility).

Telecommunications/Information Technology (BDPC funds these projects through its tendering agencies):

Expand fiber optic networks to cover all Olympic sites;

Introduce a mobile communication network in the Olympic area;

Establish digital network HDTV transmission capabilities for all Olympic venues; and,

Install GPS technology at Olympic transport routes for the Olympics and public transport.

For more information, please contact Matthew Gettman at matthew.gettman@mail.doc.gov.

For more information on possible Hong Kong partners for these projects, please contact Elanna Tam at elanna.tam@mail.doc.gov.

5. DATES FOR UPCOMING TRADE SHOWS IN HONG KONG

- The Built Environment – Innovation and Integrated Building Performance Conference and Exhibition, Nov 18-19, 2003 at Kowloon Shangri-La Hotel. For more information, please contact Elanna Tam at elanna.tam@mail.doc.gov.
- Natural Products Expo Asia 2003 to December 3-5, 2003 at the Hong Kong Convention & Exhibition Center. This is a Department of Commerce Certified Trade Fair. For more information, please contact Rose Mak at rose.mak@mail.doc.gov.

- Hong Kong International Franchise & Business Opportunities Expo, December 5-7 at the Hong Kong Convention & Exhibition Center. This is a Department of Commerce Certified Trade Fair. For more information, please visit www.expo.com.hk or contact Swee-keng Cheong at swee-keng.cheong@mail.doc.gov.
- HOFEX, February 10-13, 2004 at the Hong Kong Convention & Exhibition Center. For more information, please contact Olevia Yim at olevia.yim@mail.doc.gov.

INTERNATIONAL COPYRIGHT, U.S. COMMERCIAL SERVICE, 2003. ALL RIGHTS RESERVED
OUTSIDE OF THE UNITED STATES.